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The U.S. International Trade Commission's High-Technology Trade Roundtable

Discussion Summary

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Abstract

On June 22, 2011, the U.S. International Trade Commission hosted a roundtable discussion on high-technology trade and issues related to it. The roundtable drew participation from industry, government, and think tank representatives who provided their views on a number of current and future high-tech trade issues.

Introduction

The U.S. International Trade Commission (USITC) held the roundtable on high-technology (high-tech) trade to provide an informal forum for participants to discuss current and potential issues of interest in the high-tech trade area. The first part of the discussion was focused on high-tech trade issues in Asia; the second, on the impact of global supply chains on high-tech trade. The participants

[1] Falan Yinug (Falan.Yinug@usitc.gov) is an international trade analyst from the Office of Industries. Natalie Mabile is an intern from the Office of Industries. This article summarizes views expressed by roundtable participants. These views are strictly those of the participants and do not represent the opinions of the U.S. International Trade Commission or of any of its commissioners. Even though the summary often cites instances of general agreement among some participants, this does not necessarily reflect a consensus view of every participant.

addressed a number of major issues, including indigenous innovation, network security and standards, intellectual property (IP) infringement, and such supply-chain challenges as security, counterfeiting, tariff barriers, and risk mitigation. The following is a summary of the discussion.

High-Tech Trade Issues in Asia

Indigenous Innovation

Roundtable participants offered differing perspectives on the risk China's indigenous innovation policies pose to the United States. Several participants considered it too early to accurately evaluate the impact of these policies, and expressed interest in developing a better template to quantify the threat of harm to U.S. industries. Some attendees noted that the direct impact of China's innovation policies appears small so far, and that the policies may have a more deleterious effect on other Asian countries than on the United States, while others noted that these policies are already significantly hampering market access for U.S. companies. Participants noted that indigenous innovation policies linking government procurement to products whose IP is locally owned and developed have had the most direct harm to the U.S. high-tech industry thus far, but there is a broad array of other indigenous innovation policies that pose significant market access threats and could eliminate U.S. trade opportunities. Some said that any policy that shortchanges IP rights could obstruct global economic growth in the high-tech industry.

Additionally, roundtable speakers remarked that if other governments emulate China's indigenous innovation policies in their own countries, the result could be formidable for U.S. companies. The Governments of Brazil, India, and Russia are already reportedly considering policies similar to those emerging in China. However, one participant suggested that China's approach provides an opportunity for other countries in Southeast Asia to compete by offering an investment climate unlike China's.

Network Security

Participants noted that the impact of network security requirements on competitiveness in the high-tech sector is of great concern. Participants stated that in Asian markets, particularly China and India, the rationale for improved security is being used in part to restrict market access and to bolster indigenous

companies. They said that while the General Agreement on Tariffs and Trade includes exceptions designed to allow governments to take certain measures related to security and privacy concerns, it does not justify many of China's restrictions. Addressing the challenge of dealing with restrictions based on improved security, some participants also reported the challenge of operating in countries where their own networks and data are not secure, especially from the host government. A suggested tactic to counter such practices is to increase transparency about them. One speaker claimed that if more companies reported attacks on their networks, the government would have more authority in telling the Chinese Government, for example, that such practices are unacceptable.

An emerging issue in network security is the requirement in some countries, such as Kazakhstan, that companies locate their data centers within those countries in order to operate in those same countries.

Noting that data regulation was not a major part of past trade agreement negotiations, participants recommended that the U.S. Government develop a more complete set of domestic and international policies on property rights and contracts. Participants agreed that the basis of an agreement with Asian nations concerning network security will be comprehensive domestic policies. Without providing specifics, participants said that until the United States has settled current issues within its domestic legal institutions, it will be difficult to negotiate global network security provisions.

The Trans-Pacific Partnership (TPP) and Encryption Standards

Participants discussed the potential role of the TPP as a model for new trade agreements, especially as a means of standardizing encryption regulations. Attendees noted the significance of the growing number of software and integrated products containing cryptographic capabilities. According to one participant, these capabilities are included due to great customer demand globally. Attendees urged the United States to emphasize to China and other Asian countries that implementing encryption standards that are in line with established international standards will ease the flow of important commercial products.

The Impact of Global Supply Chains on High-Tech Trade

Security Versus Trade Facilitation

Roundtable participants discussed the ability of producers of high-tech products to balance needs for safety and security with those for reliable and efficient supply chains. Attendees suggested that security and efficient supply chains need not be framed as competing needs; if a global supply chain is managed properly, it will increase security while also effectively facilitating the free flow of compliant goods. For example, it was mentioned that a certified importer program is reportedly in the works to establish end-to-end certification of a supply chain, which is intended to ensure product safety and the integrity of the supply chain. The program is initiated by a coalition consisting of high-tech companies, pharmaceutical firms, the U.S. Food and Drug Administration, and other organizations.

Some attendees noted that partnerships between the private sector and the government are necessary to make these types of systems work. Two participants asserted that to the extent government discussions of supply chains are classified, it creates a problem as companies often do not understand what risks exist, and therefore, do not change their practices to address those risks.

Counterfeit Goods and IP Infringement

Some participants expressed concern about counterfeit high-tech goods coming into the United States. Others noted concern about goods coming into the United States incorporating stolen U.S. technology (through IP infringement or other means). Companies reportedly continue to take advantage of the low costs associated with buying from suppliers who use stolen technology, despite U.S. regulations. In particular, counterfeit semiconductors and the use of unlicensed software by foreign businesses that export to the United States are said to be widespread, impeding fair competition. Some participants indicated the need to examine the trade tools available to address this problem. One suggested approach was to revive Section 301 of the Trade Act of 1974; however participants were not specific in how Section 301 ought to be used in this case. One participant suggested that the USITC work to enhance cooperation between U.S. Customs and Border Protection and the U.S. semiconductor industry to better enforce restrictions and to facilitate judicial action against counterfeiters and suppliers of infringing products.

Tariff Barriers

Speakers noted that while much of the discussion in the high-tech industry focuses on nontariff barriers to trade, the industry continues to face tariff issues, despite the Information Technology Agreement (ITA). One participant noted that the ITA has failed to deal entirely with these issues because some members have not fully respected the agreement, and because the ITA does not currently cover all high-tech goods. Participants agreed, however, that the ITA provides a suitable platform on which to build. Several attendees suggested that the U.S. Government should push for an expansion of the ITA, noting that expansion would take care of the next-generation trade problem of product convergence, allow for zero tariffs on many more products, and make global supply chains operate more cleanly and smoothly.

Globalization

Participants repeatedly mentioned the risks associated with using global supply chains, including natural disasters, physical piracy, IP piracy, and government regulatory efforts. However, some attendees suggested that such risks can be solved by more, rather than less, globalization, adding that globalization lowers transaction costs and reduces reliance on any one factory or company. Regardless of the associated risks, some attendees argued that a global supply chain system is more secure than a purely domestic system.

Final Comments

This summary focuses on the major issues raised by the majority of the speakers. Other issues mentioned, but not covered in detail during the roundtable included state-owned enterprises, the role of the internet in facilitating global exports, restricting sourcing from certain countries, and tools for spurring domestic innovation.

List of external participants at the USITC's High-Tech Trade Roundtable held on June 22, 2011

Name	Title/Affiliation
Grant Aldonas	Principal Managing Director Split Rock International
Bob Boorstin	Director of Corporate and Policy Communications Google Inc.
Meredith Broadbent	Senior Adviser and William M. Scholl Chair in International Business Center for Strategic and International Studies
Dorothy Dwoskin	Senior Director, Global Trade Policy and Strategy Microsoft Corporation
Becky Fraser	Senior Manager, Greater China U.S. Chamber of Commerce
Ed Gresser	Director, ProgressiveEconomy GlobalWorks Foundation
Vicki Hadfield	Senior Vice President, Global Public Policy TechAmerica
Marc Mealy	Vice President U.S. ASEAN Business Council
Michael Mullen	Executive Director Express Association of America
John Neuffer	Vice President for Global Policy Information Technology Industry Council
David Ohrenstein	Director of Public Policy and Emerging Markets Business Software Alliance
Michelle O'Neill	Deputy Under Secretary for International Trade U.S. Department of Commerce, International Trade Administration

Ryan Ong	Director of Business Advisory Services U.S.-China Business Council
Jim Sanford	Assistant U.S. Trade Representative for Small Business, Market Access, and Industrial Competitiveness Office of the U.S. Trade Representative
Ian Steff	Director, Government Affairs and International Trade Semiconductor Industry Association
David Weller	Partner WilmerHale